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WHY I BELIEVE IN MUNICIPAL OWNERSHIP

BY ROBERT CROSSER,

United States Congressman from Ohio, Member of Committee on the District of Columbia.

Mr. Chairman, Ladies and Gentlemen: Perhaps I would have hesitated about speaking had not Mayor Blankenburg made my task somewhat easy by requesting me to make an address upon the subject "Why I Believe in Municipal Ownership." Certainly anyone should be able to give the reasons why he believes in a proposition himself, whether or not the reasons may seem sufficient to others.

People engage in business for the purpose of satisfying their desires, and the natural law which prompts one to serve his own interests primarily, invariably is operative in the conduct of any business. This human tendency, if unrestrained, would cause those engaged in vending any sort of merchandise or service, to demand all that the person desiring the merchandise or service would be willing or able to give for it. It so happens, however, that in all ordinary lines of business, we have a great many persons who are able to supply the same kind of merchandise or render the same service, and as each is anxious to do the business, that is, make the sale or render the service for profit, this rivalry or competition reduces the price of the merchandise or service in question as far as possible and still yields a reasonable profit. Where, however, any service must necessarily and properly be performed by an agency enjoying the sole right to serve the public generally, the natural law involved in competition can, of course, play no part. Public utility service, so-called, should be rendered by an agency enjoying a monopoly of the right to render such service, and this is generally the case. The question then arises, whether this monopoly right should be exercised by private individuals or institutions, or by public agencies.

Now it is conceded that the prime, and really the only motive in private enterprise, is profit. The greater the profit the more successful is the business from the standpoint of the person or persons who own the business. The greatest profit is derived by exacting

the highest price which the person desiring service or merchandise is willing to pay in order to get it, or by giving as little service or goods as possible for what the buyer can pay, which amounts to the same thing. That is the natural tendency of the private individual or individuals enjoying the sole right to supply any public service, unless there is some check.

Of course, from the very beginning the private owners of public utilities have been subjected to certain restrictions as to the price to be charged the consumer, the manner in which the service should be extended, etc. It was self-evident that some such conditions should be imposed upon the private owners, since otherwise, as I have already stated, they would practice extortion, render inferior and inadequate service, etc. The natural desire to serve their own interests, however, by procuring the greatest profit possible, in the very beginning caused, and still causes, those desiring the exclusive privilege of operating a public utility, to employ every means for the purpose of inducing the municipal authorities to grant the privilege in question upon terms as favorable as possible to parties desiring the right to operate the public utility. The municipal authorities, however, unless subjected to some particular influence which would induce them to do otherwise, naturally would be disposed to see that the public were fully protected. The persons desiring the particular privilege in question, therefore, begin to devise ways and means of influencing the municipal authorities to grant the privilege of supplying the service upon terms satisfactory to the persons seeking the exclusive privilege in question.

The most obvious method, and the one generally employed in the early history of the public utility, is to offer some sort of a reward to the officials having authority to grant the private person or company the privilege desired by them. Almost every important city in the United States has had its experience with this sort of corruption of its public officials.

In his book entitled *Facts and Opinions*, ex-Mayor Hazen S. Pingree, of Detroit, says that the Citizens Railway Company of that city "literally owns the council, body and soul." He states that it would pay \$3,000 for a member of the city council and actually offered to buy the mayor of the city for \$75,000.

In New York City the Broadway Surface franchise was secured by influencing the councilmen in the manner referred to, and those

councilmen rejected the offer of the Cable Railway Company to pay the city of New York a bonus of \$1,000,000, but the aldermen, in order to enrich themselves, refused to grant the franchise to the Cable Company, although it would have meant a million dollars to the taxpayers of New York City. Upon investigation it was shown that the aldermen were given \$20,000 apiece, and that the total expense of this nature to the Railway Company was \$500,000. These we find to be the facts in the report of commissioners of railroads relative to the Broadway Surface Railroad Company, as set forth in New York senate document No. 79, in the year 1888.

We all remember the San Francisco scandal, which resulted in a number of prominent men being indicted and some convicted.

Sometimes, however, public officials are found who cannot be tempted by the offer of any reward, and in such cases it is frequently found that the persons striving to procure the so-called franchise or similar privilege, undertake the intimidation of the official or officials who have manfully refused their bribes.

But it is unnecessary, in the short time at my disposal, to discuss all of the different methods employed to accomplish the one purpose, *viz.*, the procuring of the monopoly privilege on terms which are satisfactory to those seeking such privilege. Even after they have procured the right in question, the tendency is to operate their plant in such a manner as proves unsatisfactory to the public generally. In order to increase their profits, they naturally try to minimize the expense of operation as much as possible, and this means deterioration in service.

It is a common saying among street railway managers, for example, that "strap-hangers make dividends." Schedules are reduced in order to reduce the expense. The wages of employees are kept down as much as possible so as to leave as great a profit in the hands of the company as possible. These are a few of the evils resulting from private ownership and operation of public utilities. There is, however, one other objection which I have not mentioned, but which seems to me to be one of the most serious of all.

It will be conceded by all that most persons want men in public office who hold views similar to their own, and who will conduct themselves in their official capacity in such a manner as will promote their interests. This fact causes men who must procure special

privileges in order to conduct their business, as is the case with every public utility, to exercise their influence and exert themselves toward the election or appointment to public office of men who will be favorably disposed to the interests of those who must have special privileges. Men of this type, elected or appointed to public office, will, of course, feel inclined to pay the obligation which they feel they owe to those who interested themselves in their election or appointment. Now, men who can be relied upon to do the bidding of any special interest, either because they owe their election or appointment to the influence of that interest, or because of some reward offered for compliance with the request of such interests, are certainly not men of strong moral fibre, but, on the contrary, are generally weak and inefficient. As a result we have not only maladministration by such officers as to the public utilities, the owners of which have befriended them, but also an inefficient administration in regard to all other matters, for men who are weak enough to be controlled by such special interests, have not the force and sense of justice which would qualify them to administer the ordinary affairs of government impartially and efficiently. Men who are weak enough to bargain away the people's rights for political support received before election, or for material reward offered after election or appointment, are not the kind of men who have the clear vision and the high ideals necessary to enable them to perform the duties of public office in the proper manner.

While those persons having an interest in privately owned public utilities have no desire to have a bad police system, or inefficient school system, or a bad administration in any of the ordinary lines of municipal activities, and may, in fact, be trying hard to "clean up the city government," as they call it, in these respects, and to give us what they delight to call a "business administration," nevertheless, insofar as they may find it necessary for their own interests, to put weak and pliable men into public office, just so far have they been the cause of the inefficient government in all of the other respects mentioned.

But the evils of private ownership have, for several years now, been generally acknowledged, even by the more intelligent men directly interested in privately owned public utilities. They realize the force of the objections and the arguments made against the institutions with which they are identified, and, in order to postpone

the day of reckoning as far as possible, they are now constantly urging regulation as the proper remedy for the evils which invariably accompany private ownership. It is somewhat amusing to note how eager and vociferous are the demands of those private owners for regulation. It seems to be assumed by them that regulation was never attempted by public authority during the early history of public utilities, whereas, the fact is that from the very beginning they have been subject to certain legal restrictions. The terms of the franchise, the traffic regulations, etc., were all efforts at regulation. What is really desired and proposed by these private concerns, is simply a little different form of regulation. They would have the regulating authority transferred from the city council, or similar authority, to some state board. In fact, Mr. Rosecrantz, general counsel for the public utilities companies of Milwaukee, frankly says that he objects to regulation by local authority.

We all know that city councils have now become much more sensitive to the people's will, and that the people of the cities are beginning to understand very thoroughly their rights in regard to public utilities. It is, therefore, natural that those who are so loudly clamoring to be regulated, want the regulating authority as far away from the seat of war as possible, and desire a board whose authority is not derived from the people who must deal with the privately owned utility.

Practically every objection which has been shown to apply to private ownership and operation of street railways under the franchise plan of controlling the privately owned utility, applies to the later method of regulation. It is just as natural for those who must use the public property to conduct their business, to make every effort possible to prevent the new kind of regulation from diminishing their profits as it was under the old system of regulation. They are just as anxious to have members of public utility commissions appointed or elected who are satisfactory to them and to their interests as they were in the old days to have councilmen or aldermen who were satisfactory to them. They want men who can be relied upon to regulate them in the way they want to be regulated. In short, we cannot change human nature by changing the name of the regulating authority.

This is not all theory either. The history of regulation has been marked by constant resistance against every important order

or measure made for the purpose of accomplishing anything substantial in the way of control. The Cullom Act, which was enacted in 1887 for the purpose of regulating interstate commerce, was followed by the Spokane case, which was decided by the Interstate Commerce Commission in favor of the city of Spokane. Immediately the case was taken into the courts, where it remained for a long time, the fourth section of the law being finally declared unconstitutional. The Dolliver-Hepburn Act was then passed in 1906, to meet the objection which the court found in the Cullom Act. The city of Spokane filed another case similar to the one first mentioned, but the main question was not finally decided until after the lapse of seven or eight years.

It is claimed by the defenders of private ownership of public utilities, that while the private companies have sinned in the past, and have been guilty of the wrongs to which I have already referred, they now have reformed and are conducting themselves as good people should do; in short, that they have practically forgotten self interest and are simply interesting themselves in the public weal. It is not necessary to look very far for glaring proof to the contrary. A little over a year ago the railroad commission of San Francisco in passing upon the application of the United Railroads of San Francisco for permission to issue \$2,350,000 five-year notes for the purpose of paying off certain of its bonds, found that the United Railroads had exchanged with its owners its own promises to pay and set them up as investments. Such conduct is the natural result which we might expect when the chief motive which actuates the sole agency supplying any public service, is profit. Regulation may, and no doubt does, prevent the evils to which we have referred from going to the extremes that otherwise would be the case, but the theory of regulation is not sound. It is never a really effective method of procuring the desired results, and is not at all permanent. It is an unsound philosophy, which insists upon the maintaining of conditions which naturally induce human nature to go wrong when it comes in contact with them. If we make it to the material advantage of men to veer from the path of justice, the likelihood is that they will commit injustices. A man may be willing to sit up all night for two or three nights to guard his home against a burglar whom he knows to be at large in the community, but after awhile he will get tired of doing this and will endeavor to have the burglar

locked up instead, so that he can go to bed and have a good night's sleep. So it is with the public in regard to private individuals who are seeking a monopoly of the right to provide a certain public service. The public may, through utilities commissions, etc., watch them and regulate them for awhile, but ultimately it will be found a much better way to quit the task of watching lest some private individual should rob the community of its property, and, instead, arrange to serve itself and shut the door against those who may be tempted to secure unfair advantage over the public.

Even assuming that regulation should succeed pretty well in the beginning, because of an aroused public interest, the tendency would be to lapse into the old habits. The tendency is for the mind to tire of constant watching and relax its vigilance, and so it is with the composite mind of the public. It becomes weary of the task at times, and relaxes its attention, but the persons who are either seeking the private ownership of new public utilities, or more favorable conditions in regard to those already established, have a strong motive for urging their demands, and then conditions are established from which it may be impossible for the public to be freed for a long period of time.

I believe that municipal ownership and operation of public utilities is the real solution to the problem. Under this plan profit is not the prime incentive, as in the case of private ownership. The object of a municipality is to render the best possible service at the lowest price which will enable it to pay expenses. There are no privileges to be sought by a municipality, and hence no temptation to bribe or pay anyone for privileges. The public officials charged with the duty of operating any utility, as they reduce the cost and increase the quality of the service, will accordingly please their employer, namely, the people.

The motive of such official is to procure the approbation of the general public, and this is possible only by serving the best interests of the public. According to his success will be his reputation, the certainty of employment, and the increase of his compensation toward the maximum for the kind of employment in which he is engaged.

There is really but one argument of any consequence ever made against municipal ownership, and that is the fact that the persons employed to operate the utility would be selected with the object

of building a political machine. It is true, of course, that under any popular government, the public servant, as well as the private citizen, can exercise his influence to make the government reflect his will as much as possible. The only question, therefore, is whether the system of private ownership or public ownership gives the public utility employee the greater advantage over the ordinary citizen. Certainly under the system of private ownership, the employee of the public utility exerts his influence in favor of his employer in any dispute which it may have with the public. Of course, where the dispute concerns the terms of employment of the employee, he naturally opposes the company. This was the experience in the city of Cleveland during the street railway controversy between 1901 and 1908. Employees of the old street railway almost unanimously supported the contentions of the company at every election and opposed Mayor Johnson. But, in addition to this fact, we must remember that there were at least as many stockholders as employees, who were also straining every nerve to procure that for which the company was fighting. Now, under municipal ownership, we would have about the same number of employees, and we may assume that they would also be politically active in behalf of those who had employed them, but we do not have the large number of stockholders working in conjunction with the employees. Every citizen is a stockholder in the municipally owned utility, and his interests are in common with every other citizen, so that the public advantage is his advantage. It is claimed, however, that because of the desire to build a machine and perpetuate themselves in office, those having the authority to employ the operatives of public utilities would select men who are not qualified to perform the duties incident to the position given them, but rather would employ men because of their superior political influence and their ability to control this ward or that precinct. This argument ignores entirely the element of public sentiment. Since we have popular government, those entrusted with the management of publicly owned utilities would be under the necessity of pleasing their employer, the public, if they desired the success which most public officials do desire, *viz.*, the satisfying of the public demand. If such public officials should appoint a lot of incompetents to operate the utility, the service would necessarily be very unsatisfactory and would meet with severe condemnation from the public. This would certainly

be injurious to the official entrusted with the management of the utility, and probably would mean his removal from office. It would seem, therefore, that intelligent selfishness would cause him to select the best men obtainable to operate the utility, for the success of which he would be responsible.

But, as a matter of fact, have we heard of anyone making a political machine of the police force, or the fire department?

One fact has been entirely overlooked by those who are so much concerned about the political machine which would be formed from the utility employes, and that is that we would then have abolished the privilege-seeking horde. We would no longer have to sit up nights watching lest they might swindle the public out of its rights, and, consequently, the people, having rid themselves of that task, would be free to watch more closely the conduct of its public officials, and see that they discharged their duties in an efficient manner. There being then no franchise scandals possible, the newspapers would devote themselves to criticism of public officials as to the discharge of their duties as managers of the publicly owned utility, as well as in other official capacities, all of which would make it very difficult, if not disastrous, for the managers of publicly owned utilities, to employ men regardless of their ability and training.

I believe therefore, that, upon principle, municipal ownership of public utilities is absolutely sound.

Many who agree with us, however, in our reasoning as applied to a particular public utility find considerable difficulty in making a general application of the principle of municipal ownership of public utilities. The opposition insists that the logical conclusion of our argument is that we must have municipal ownership of bakeshops, grocery stores, etc. That, of course, does not follow. The true test is this: if it is necessary that the agency rendering any service to the public must have a monopoly of the right to render such service and the streets or other public property must be used in doing so, then that agency should be the governmental authority itself.

Before closing, I wish to call attention to the fact that the experience in Great Britain substantiates the claims which I have made. In 1906 the National Civic Federation created a committee for the investigation of municipal ownership of public utilities. This committee selected five cities, consisting of Glasgow, Leeds, Liver-

pool, Sheffield and Manchester, which originally had privately owned street railways, but which later municipalized the street railway systems. The committee determined the percentage of increase of extensions of the railway systems during the entire period of private ownership, and also the percentage of increase for a like number of years after the date of municipalization, and it was found that the annual average increase during the period of company operation was 1.2 per cent, while the average annual increase during the period of city operation was 15.8 per cent. The committee also calculated the percentage of increase of extensions of street railways in five cities where private ownership had continued to the date of collecting the data, using the dates of municipalization of the first five cities as a dividing date for the five cities where private ownership continued to the date of collecting the data. It was found that the average annual increase of extensions before the dividing date was 4 per cent, and that the average annual increase after the dividing date was 5.5 per cent, a difference of only 1.5 per cent. Compare this with the first five cities referred to, which showed an annual average increase of 15.8 per cent under municipal operation as against 1.2 per cent under private operation.

Data were collected in regard to the reduction of fares in both of these groups of cities for the same periods. During the private ownership and operation of the street railways in the first group, consisting of Glasgow, Leeds, Liverpool, Sheffield and Manchester, the average annual reduction was 0.5 per cent, while during the period of municipal ownership and operation in the same five cities, the annual reduction was 3.21 per cent, or more than six times the reduction made during private operation. In the group of six cities consisting of Dublin, Edinburgh, Bristol, Belfast, London and Norwich, which had private ownership until the date of procuring the data, we find very different results. The committee divided the period of private operation into two parts, using the dates of municipalization of the first five as the dates for division of the companies' experience in the latter six cities. During the first period, the average annual reduction was 2.46 per cent, while during the second period, the average annual reduction was only 0.61 per cent. It will thus be seen that the per cent of reduction decreased during the latter part of the company operation, whereas, in the

first five cities mentioned, in the period of municipalization it increased more than six times.

The evidence produced before the committee also indicated that the condition of labor had very much improved during the period of municipal ownership and operation, and this is but natural. Since the public generally consists of persons who must earn their living, they are disposed to be fair with those employed by the city. During the period of rapid municipalization in Great Britain, the reduction in the hours of street railway employees amounted to about 48 per cent, while the increase in wages at the same time amounted to about 42 per cent. Mr. W. L. Magdon, manager of the Brush Electrical Engineering Company, of Great Britain, who appeared before the National Civic Federation Committee in opposition to municipal ownership, said:

It is beginning to be felt by those engaged in private enterprises that any industry in which the municipalities become established, is a very good one for the private trader to be out of. It is a rather serious but sincere statement. We find in tramway work, they establish labor conditions which sooner or later become imposed by pressure on private undertakings, and these are so onerous as to seriously handicap the private enterprise.

In testifying before the Civic Federation Committee, Mr. T. M. Wood, of the London County Council, concluded by saying: "We regard it as a great advantage to work the men humanely—quite as great an advantage as 1 per cent more profit."

In conclusion I wish to re-state briefly, the advantages which I think will result from municipal ownership and operation of public utilities. First, a reduction in the charges made for the service rendered; second, an improvement of the service; third, an improvement in the conditions of labor; fourth, and most important of all in my opinion, the fact that, with the establishment of ownership and operation of all public utilities the city governments would be free from the influence of those seeking the right, upon most favorable terms, to privately own and operate public utilities. This would give the cities of this country a chance to grow and to develop governments, the privilege of serving in which the most prominent and capable citizens would seek.